



“Fortis Healthcare Limited Q1 FY25 Earnings
Conference Call”

August 07, 2024



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Moderator: Ladies and gentlemen, good day, and welcome to Q1 FY '25 Post-results Conference Call of Fortis Healthcare Limited.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Anurag Kalra – Senior Vice President, Investor Relations at Fortis Healthcare Limited. Thank you, and over to you, sir.

Anurag Kalra: Thank you very much. A very good morning and good evening, ladies and gentlemen, and welcome to Fortis Healthcare's Quarter 1 FY '25 Earnings Call.

The call is being chaired by our MD and CEO – Dr. Ashutosh Raghuvanshi. With him, we have our Chief Financial Officer – Mr. Vivek Goyal. From the Agilus side, we have Mr. Anand – the CEO; and Mr. Mangesh Shirodkar – the Chief Financial Officer.

We will start with some Opening Comments by Dr. Raghuvanshi on the Results and the Business Performance, followed by which Anand will take you through some of the Key Highlights of the Diagnostics Business, and then we can open the floor for question and answers.

Over to Dr. Raghuvanshi.

Ashutosh Raghuvanshi: Thank you, Anurag. Good morning, and good afternoon, everyone. I hope everyone is doing well, and you have taken time to join us on our Q1 Financial Year '25 Earnings Call today.

I will dive right into the quarterly results and share my thoughts on the Business Performance and our path forward.

Our performance in Q1 Financial Year '25 has been impressive, showing a significant improvement over the previous year. In fact, this achievement has been driven by strong performance of our hospital business. We reported a consolidated top line figure of Rs. 1,859 crores, a growth of 12.2% over Q1 of Financial Year '24. Noticeably, our hospital business revenues have grown 14.4% to Rs. 1,549 crores, while the Diagnostics business revenues stayed on par with previous year at Rs. 343 crores.

Our consolidated operating EBITDA saw an uptick of 25.5%, reaching Rs. 343 crores, yielding a margin of 18.4% versus 16.5% in Q1 of Financial Year '24. The Hospital business operating EBITDA was Rs. 287 crores, resulting in improvement in margins by a strong 330 basis points from 15.2% in Q1 of Financial Year '24 to 18.5% in Q1 of Financial Year '25.

The Hospital business EBITDA now accounts for 84% of total consolidated EBITDA, up from 75% in Q1 of Financial Year '24, indicating strong profitable growth in this segment. In 8 of our facilities, we have recorded operating EBITDA margin above 20% during the 1st Quarter. These 8 facilities contributed 69% of the hospital revenue compared to 62% in Financial Year '24.

Operating EBITDA margin in the Diagnostics business basis gross revenues were at 16.1% vis-a-vis 19.4% in Q1 of Financial Year '24. The operating margins were 18.7% after factoring the impact of one-offs related primarily to the rebranding exercise undertaken by Agilus for the brand change and the provisions pertaining to certain government business. On a like-for-like basis, the adjusted operating margins were 20.8% in Q1 of Financial Year '24 and 15.9% in Q4 of Financial Year '24.

Our consolidated reported profit after tax for the quarter increased 40.4% to Rs. 174 crores.

Coming to the balance sheet side, we remain quite healthy with a net debt-to-EBITDA of 0.22x as on June 30, 2024, as against 0.35x on June 30, 2023 (basis Q1 annualized EBITDA). Our net debt stands at Rs. 308 crores as on June 30, 2024.

Generally, Q1 is a relatively softer quarter, however, our hospital occupancy improved to 67% compared to 64% in Q1 of Financial Year '24. This translated into occupied beds increasing by 4.6% to 2,715 compared to 2,595 in Q1 of Financial Year '24.

Our Hospital Business saw a 9.7% increase in ARPOB, reaching Rs. 2.41 crores per annum. This growth was largely fueled by revenue gains in our key specialty areas: oncology, Neuro Sciences, Cardiac Sciences, Orthopedics, Gastroenterology, and Renal Sciences. Collectively, these specialties achieved a 15.7% year-on-year growth and contributed 63% of the total hospital revenues, which is on the similar lines as Q1 of Financial Year '24. Specifically, growth in Neuro Sciences at 23% and Oncology at 22% was quite encouraging. This is also reflected in the number of procedures performed in Neuro Sciences that reported a growth of 23% compared to the corresponding previous period, while the number of robotic surgeries performed increased by a strong 59% compared to Q1 of Financial Year '24.

Our revenues from medical travel grew 11% compared to Quarter 1 of Financial Year '24 to reach Rs. 127 crores. Revenue contribution of international business stood at approximately 8% in Q1 of Financial Year '25, similar to Q1 of Financial Year '24.

Most of our key facilities performed well during the quarter with revenues from Mulund, Anandpur, BG Road, Shalimar Bagh, and Amritsar, each growing in excess of 20% compared to the corresponding previous period. During the quarter, we further strengthened our medical talent with onboarding of specialists in the area of Cardiac Sciences, Neurology, Orthopedics, Obstetrics and Gynecology, and Ophthalmology.

I am excited to share that our commitment towards augmenting our medical programs has made notable strides in advancing our strategic growth initiatives, marked by brownfield bed expansion and continuous investment in the state-of-the-art medical equipment. Recently, Fortis Nagarbhavi, Bengaluru, that was previously a 50-bedded facility, expanded to 80-bed multi-specialty tertiary care facility in a significant upgrade that included introduction of 24/7 emergency and trauma care, ICU and Critical Care, Heart & Vascular Centre and Fortis Cancer Institute. I am pleased to announce that FMRI Gurgaon introduced South Asia's first Gamma Knife Esprit radiosurgery equipment for neurosurgical treatment that employs non-surgical computer-guided precision to target brain tumors, both malignant and benign.

We are progressing well on our brownfield expansion planned for this year, and we will be adding capacities across our key facilities, including Faridabad, Anandpur, Shalimar Bagh and Noida. In addition, we expect the 350-bed Manesar facility that we acquired in Financial Year '24 to be operational in the ongoing quarter.

I would like to touch upon our continued efforts and the resulting success of our digitization efforts as well. We have successfully implemented Electronic Medical Records for OP modules across 6 of our units now while the application development for IP module is underway. Revenues from digital channels continue to demonstrate robust growth. Revenues from website, mobile applications, and digital campaigns witnessed a 52% year-over-year growth and 17% quarter-on-quarter growth in Q1 of Financial Year '25. Revenues from digital channels contributed almost 30% to overall hospital revenues versus 23% in Q1 of Financial Year '24.

On our diagnostics side, the business reported gross revenues of Rs. 343.5 crores versus Rs. 342.7 crores in Q1 of Financial Year '24, and Rs. 338.4 crores in Q4 of Financial Year '24. Our operating EBITDA margins (basis gross revenues) were at 16.1% compared to 19.4% in Q1 of Financial Year '24. Operating EBITDA margins (basis gross revenues) in Q1 Financial Year '25 were better than the trailing quarter margins of 14%, primarily driven by cost optimization initiatives including, amongst others, improved network efficiency and reduction in manpower cost.

Continuing with our network expansion strategy, primarily the addition of new customer touch points (CTPs), total CTPs as on 30th June '24 stood at 4,055. The preventive portfolio revenue in Agilus' overall revenues grew 13% in Q1 Financial Year '25 and contributed 12% to the operating revenues versus 10% in the Q1 of Financial Year '24.

The Diagnostics business performance is still adjusting to the impact of Agilus rebranding exercise, which involved extensive rebranding efforts and associated marketing costs. Additionally, certain provisions related to government business have also affected its performance.

That said, I am confident in Agilus' potential to scale up both in terms of its revenue and margins based on its considerable network presence, a balanced B2C, B2B mix, and the increased focus

on preventive care and specialized testing. To also add, I do believe that the Agilus brand is being well accepted and gaining recognition. This would place the company in a better position to further scale our performance.

With this, I will conclude my comments. I think it's been a healthy start for the fiscal year 2025. We are making significant progress on the growth at all possible fronts. We will also continue to explore and assess various growth opportunities that align with our cluster strategy and offer promising synergies. I believe these initiatives will further enhance our growth potential and strengthen our position in the health care sector.

Thank you, and I will hand over to Mr. Anand for his comments on the diagnostics business now.

Anand K.:

Thank you, Dr. Raghuvanshi. A very good morning and good afternoon to everyone on the call. Thank you for joining us today. On behalf of Agilus Diagnostics, I warmly welcome you all to our Q1 FY '25 Results Conference Call.

Agilus Diagnostics reported a revenue of Rs. 343.5 crores in Q1 of FY '25 compared to Rs. 342.7 crores in Q1 of FY '24. Q4 of FY '24 revenue stood at Rs. 338.4 crores. During this quarter, Agilus conducted 9.92 million tests compared to 9.95 million tests in Q1 of FY '24, and 9.61 million tests in Q4 of FY '24. Operating EBITDA for the quarter stands at Rs. 55 crores compared to Rs. 66 crores in Q1 of FY '24 (16.1% versus 19.4% EBITDA margin), and Rs. 47 crores in Q4 of FY '24. Operating EBITDA before one-off expenses is Rs. 64 crores compared to Rs. 71 crores in Q1 of FY '24 (18.7% versus 20.8% EBITDA margin), and Rs. 54 crores in Q4 of FY '24 (15.9% margin). During the quarter, we incurred onetime expenses of around Rs. 9 crores, primarily in relation to Agilus' rebranding and the provisioning pertaining to certain government contracts.

Our average realization per test for Q1 of FY '25 is Rs. 340 and per patient revenue is Rs. 845. The business continues to benefit from a well-diversified geographical mix with no overdependence on any particular region, allowing us to capitalize on our pan-India network optimally.

Regional revenue contributions are 32% for North, 21% from West, 30% from South and 14% from East, and 3% from international markets. Our B2C:B2B ratio is currently at 54:46. Our wellness portfolio increased by 13% in Q1 of FY '25 compared to Q1 of FY '24, and 3% compared to Q4 of FY '24. Our genomics portfolio also showed strong growth in Q1 of FY '25 with 12% growth compared to the previous year and 13% growth compared to the previous quarter. From a product standpoint, revenue contributions of 34% from specialized testing, 54% from routine tests, and 12% from our wellness portfolio. During this quarter, we expanded our network by adding over 185 new centers and 3 hospital labs.

Post a successful brand transition in the previous year, we are sustaining our brand awareness campaigns through digital platforms and various other ATL models. We aim to enhance our range within the medical community through a range of initiatives, including continuing medical education programs, sponsored events, in-clinic visual merchandise and scientific literature. Continuing our partnership with the Indian Olympic Association, Agilus Diagnostics is the official lab partner for the ongoing Paris Olympics 2024. On the clinical side, we continue to invest in new tests and technologies with a special focus on genomics. We are witnessing consistent healthy growth in this segment, and one of our goals is to continually build on this portfolio. As an organization, we are consolidating to boost efficiency, strategically focusing on key cities to establish leadership, and enhancing the customer experience to build loyalty to the new brand.

Thank you, and over to you, Anurag.

Anurag Kalra: Thank you, Anand. Ladies and gentlemen, we shall now open the floor for questions and answers. May I request the moderator to begin, please?

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Hardik Doshi from White Whale Partners. Please go ahead.

Hardik Doshi: If I see your presentation, our overall occupancy on a sequential basis has improved from 66% to 67%. Our ARPOB also on a sequential basis has improved quite healthily. But even then, when I look at the operating EBITDA margin, we are down from 22.4% to 18.5%. I understand there were some one-offs in Q4, but even adjusted for that, I think Q4 margins were 21%. It's still a pretty meaningful decline. So, any kind of one-offs in Q1 or any investments that we made? What was the reason for this dip in margins?

Vivek Goyal: Yes. If I can take this question. Vivek this side. Yes, you are absolutely right, there are certain one-offs in the quarter 4. And if you adjust that one-off, it is around 21% EBITDA margin. So, there are a couple of reasons for drop in the EBITDA margin. One is, of course, there is certain one-off in the current quarter also. So, there is around 0.5% EBITDA improvement, I am talking Hospital business alone, which 0.5% cost has been absorbed in this 18.5%, which is nonoperational in nature. One of the costs is we have to increase the price capital for converting some of our debt in one of our subsidiary companies. Then there is certain GST-related liability on some corporate guarantee earlier company has given. And there is a higher provision for bad and doubtful debt because of the lower collection in this 1st Quarter. Typically, 1st Quarter, the collection is lower and as a result the provision for bad and doubtful debt goes up. So, this takes care of 0.6% of the EBITDA margin thing. So, the balance 2% EBITDA margin drop is attributed mainly to the specialty mix. In this quarter, as Dr. Raghuvanshi mentioned earlier, we did a higher share of ortho and onco, and the surgical mix has also gone up, where the gross contribution margin is lower and the doctor share is generally on the higher side. So, these are the main reason for the EBITDA drop.

Hardik Doshi: So, then how does this kind of change your outlook for the full year margin that you have guided to?

Vivek Goyal: So, 1st Quarter, we have targeted around 19% EBITDA margin, and we are around that level. So, we are well on track for our EBITDA margin improvement guidance, which we have given earlier.

Hardik Doshi: The second question, if I look at your hospital margin metrics for full year FY '24, I think there were 5 hospitals that were less than 10% margin, which account 28% of revenues, but now that is 7 hospitals now accounting for 17.5%. So, which were these 2 kind of facilities where margins might have kind of fallen? And again, is this transitory? Or I mean, are there any issues that you're facing here?

Vivek Goyal: So, one is, of course, the FEHI Hospital, where this quarter the EBITDA margin is lower than the previous quarter, and that has fallen to the lower category. And another hospital which is in this category actually is CH Road, which is a smaller hospital in Bangalore. And there, again, because these are mainly heart-related institutes. And the 1st Quarters generally include the increment-related cost and this hospital unable to pass on those costs in terms of price increase. And that is the reason the EBITDA margin is lower in these 2 hospitals. But we are taking other initiatives through which we will be able to bounce both these hospitals back. Other hospitals have performed relatively okay.

Hardik Doshi: And then just moving on to Agilus. I think we had gotten an extension from our private equity players, where maybe I think August was the deadline to kind of come up with some resolution or they have the put option. Any update in terms of the IPO plans or sale or anything to provide an update there?

Vivek Goyal: Yes. So, you are right, there was a deadline type of date of 13th August. So, we have already started the process of going ahead as per agreement, because IPO process is not looking like we will be able to start immediately. And in that backdrop, we have appointed 1 valuer for doing the put option valuation as per the agreement, and we got the valuation now. And I think we are at the final stage of getting maybe notice from the private equity investors for exercising the put. So, we are at that juncture at present.

Hardik Doshi: And so then if you have gotten the input from the valuer, I mean, what would be the cash that we'd have to shell out to buy out the stake?

Vivek Goyal: Yes. So, valuation of 31% stake of private equity is coming around Rs. 1,780 crores as per this independent valuer. So, we have committed the facilities available to fund this type of accretion. So, from the funding perspective, it will not be a challenge. From the leverage perspective also, we are still in a very comfortable position. Our debt/EBITDA will be around 1.5x post taking this additional debt for this put option. And we will continue to do our CAPEX as per our original plan, and we will continue to look for new accretion opportunities as per our original plan. So,

this will not hamper our growth prospects in the Hospital business. This put option, we feel this may be the right approach right now to acquire the stake and then work on Agilus to improve the profitability of Agilus and look at the other alternative for Agilus maybe at a future point of time.

- Moderator:** The next question is from the line of Neha Manpuria from Bank of America. Please go ahead.
- Neha Manpuria:** Sir, what would be the timeline for completion of the acquisition of the PVP stake in Agilus? Would this be done this year? Or this could require some approvals, etc.?
- Vivek Goyal:** Yes. So, Neha, the timeline, as I mentioned, is by 13th August, we are expecting put option notice from the PE investor. Post serving of the notice, there is a 65 days' time to purchase condition. So, during this period, we will be seeking shareholder approval, because we may be raising debt in the form of FPI, which is listed debt. So, there will be requirement to take the shareholder approval for that. And plus, some sort of SPA we have to enter with the private equity investor, share purchase agreement basically. So, for that also, we will be requiring shareholders' approval. We are checking with our lawyer. There may be requirement of CCI approval also for acquiring this stake. So, that we will be taking. So, all those formalities need to be completed within this 60-day period.
- Neha Manpuria:** And the remaining stake in Agilus, what about that?
- Vivek Goyal:** So, there is no immediate plan for that remaining stake. The other shareholder will remain like minority shareholder there. We will hold around 88% plus shareholding in Agilus post this acquisition.
- Neha Manpuria:** And just continuing on Agilus. I know we have been commenting on growth trends improving, but we aren't really seeing anything or at least on the volume side in terms of growth coming back. What gives us the confidence of growth? When should we start seeing that in numbers? And what are our internal guidelines when we think about revenue growth of this business? Historically, we have indicated in line with the industry, but when do we eventually get there?
- Anand K.:** So, Neha, this is Anand here. So, after the brand transition, we have seen some degrowth, so to say, in some segments, especially those segments that are directly related to the customer revenues in the B2C segment. So, those segments, we are now catching up after we have started spending on the brand, and we have started doing the process of rebranding from the middle of previous year. So, from that time, we have seen whatever degrowth we had in those segments, they are all coming back to normal. So, we are expecting that through this year, we will be able to consolidate and get back on track in terms of our growth expectations.
- Neha Manpuria:** Sorry, sir, I missed the last part. You said consolidate this year and?
- Anand K.:** And we expect to be back on track in terms of growth expectations.

- Neha Manpuria:** So, probably get to industry growth next year?
- Anand K.:** Yes.
- Neha Manpuria:** And last on the high court litigation. I think we had the hearing last month. Any incremental update post the hearing?
- Ashutosh Raghuvanshi:** Yes. No, the hearing, I think, has been completed as far as the bank, Fortis, etc., are concerned. We believe that the next hearing is due where the Religare would be heard. That, in our belief, is the last party to be heard. So, I would say that it appears that at least the hearings are likely to conclude very soon.
- Moderator:** The next question is from the line of Amey from JM Financial. Please go ahead.
- Amey Chalke:** So, I have first question on the Agilus. So, there has been underperformance in this segment for the last few quarters. So, is this underperformance across the region? Or do you see any specific region where the decline has been substantial, which is dragging down the overall performance?
- Anand K.:** See, we did the brand change around end of 1st Quarter last year. So, the maximum impact will be seen in this particular quarter. But as we saw that the trailing quarters, the Q2, Q3 and Q4 of last year also were impacted by the brand change, and we were seeing some drop in the business. And as I told earlier, the drop has been primarily on the B2C side of the business, which is directly impacted by the brand change. And those segments, we are now getting them back on track since we have started spending more on the brand and so creating more brand awareness through various activities. So, that's how we are bringing it back on track.
- Amey Chalke:** When we see the B2C business, I believe it will be still a prescription generation for the diagnostic tests will be still through doctors, right? So, it is basically the doctors who might not be aware about the new brand name basically. So, the activity would be basically our sales force going to the doctors and making them aware, right, about the new brand. Is it how it will work? Or what else would we need to understand on this?
- Anand K.:** So, in our B2C business, about 60% is driven by doctors, 40% is driven by self-prescription. So, the patients come by themselves. So, the prescription part is not difficult, because all the doctors are now aware of this change and that is not an issue. The issue is more about patients who are walking into our centers. So, as you know, mostly these diagnostic spends are out-of-pocket, and even though the doctors direct them, mostly the patients have their own choice as well in terms of where they go. So, that's where we have been impacted to some extent in that business. So, that we are bringing it back online.
- Amey Chalke:** So, second question I have in the hospitals, where we are seeing a good sequential growth for FMRI and Mohali. If you can highlight what are the drivers for growth for these 2 hospitals and outlook for these 2 hospitals for the full year.

Vivek Goyal: So, there was growth in these hospitals. Mohali, we have added around 30 beds last year. So, those beds, we were able to fill, and there is some growth in this ortho business also there. So, their occupancy level has gone up basically with the enhanced bed capacity. And in FMRI actually, we are full in terms of occupancy. We are operating at 75% plus occupancy in FMRI. And we have added certain new clinical talent, especially in onco and cardiac side. So, that has led to filling up the beds faster. So, this hospital is now operating at 75% plus occupancy level, and we are trying to expedite our expansion program to the extent possible, so that we may accommodate more patients there. So, these are the 2 main reasons for higher profitability in this.

Amey Chalke: So, Mohali might see continuous increase basically. But FMRI, till the expansion, the increase would be driven by largely the case mix and the price rise basically.

Ashutosh Raghuvanshi: Yes, there are 2 phases of expansion in FMRI, which is one is the brownfield expansion, which we have been talking about for quite some time. So, there, the physical construction is actually happening and the civil part should be over by the end of this year. And then in the next 6 months, we should commission those beds. So, obviously, that will give the major flip. But in the interim, within the existing structure, we are adding few beds. So, we will be getting about 21 beds in the interim, which we should hopefully get by the month of November. So, that would be another kicker as well.

Amey Chalke: And the last question I have is in general. Basically, when the hospital chain is as large as Fortis with more than 25 hospitals in the portfolio, there will be some or other assets where the patient dissatisfaction can increase because of several issues like the pricing or things not going well. So, how does the management at the top would be keeping aware of these things? And what steps one can take to correct the recourse in such facilities? And in terms of our experience, have we experienced such things? And what steps we have taken and how has been the outcome?

Ashutosh Raghuvanshi: Yes. Like any other consumer industry which is spread across multiple locations, service industry, we would definitely be having the situations where there would be either complaints in the service or there could be issues regarding the billing, etc., as you mentioned. So, we have a very robust system in place. There are 2 things which we monitor, which is the NPS, which we monitor on a regular basis, which is given by the patients once they are discharged from the hospital. That gives us a general pulse of what is happening around the network. But we also have an internal system of monitoring events wherever there is any grievance in a hospital, etc.. And there are many times when the patients directly connect with the corporate patient experience team and sometimes directly with our features, including me. So, that's how it gets addressed. So, there is a mechanism at the unit level, and then there is a mechanism at the corporate level to deal with these kind of issues and problems so that we can address them with some speed.

- Amey Chalke:** And how did we benchmark set in terms of every operational aspect of the hospital, let's say, cleaning or, let's say, outcome of some cases, etc.. Are there any benchmarks set so that the service is at par across the hospitals, basically?
- Ashutosh Raghuvanshi:** Yes. So, as far as clinical governance is concerned, we have a very robust mechanism. Every hospital is NABH accredited. And because of that, there are certain parameters of outcomes which have to be reported. So, we collect those. And our central medical services and operations group has a separate quality division which looks at those. We also have additionally started reporting some of the outcomes in major cardiac procedures, etc., which would be available on our website. But we are in the process of sort of making this system even more robust, so that we can do an open reporting, to which patients have access as well in terms of outcome. As far as the infrastructure-related monitoring is concerned of, say, the cleanliness, security level, and all other aspects, we have a separate internal mechanism by which we monitor. So, we have a central team which does an audit every quarter of each and every unit.
- Moderator:** The next question is from the line of Bino Pathiparampil from Elara Capital. Please go ahead.
- Bino Pathiparampil:** I had a doubt on the Agilus EBITDA margin numbers. The reported EBITDA is Rs. 55 crores. And in your footnotes, you have mentioned that you have taken a Rs. 19 crore write-off related to Mohalla Clinic. So, if I add that, it becomes Rs. 74 crores EBITDA, but still you say that excluding one-offs, the EBITDA was only Rs. 64 crores. What am I missing here?
- Anand K.:** No. So, Bino, operating EBITDA for the Diagnostics business is Rs. 64 crores after accounting for that Rs. 8.8 crores. So, if you add that back, then it becomes an operating EBITDA of about 18.7%, which is there in Slide 16 of our presentation. This Rs. 8.8 crores is primarily rebranding expenses and some other additional provisions for write-off of the Mohalla Clinic business.
- Bino Pathiparampil:** Sorry, sorry. I think you didn't get my question. In the footnotes to your financial statements, it is said that in this quarter, Rs. 19 crores of write-off was taken related to Mohalla Clinic. Am I correct there?
- Vivek Goyal:** No. The Rs. 19 crores is the total provision till date of Mohalla Clinic since the beginning. For this quarter, we had taken around Rs. 2.5 crores of provision for the Mohalla Clinic.
- Bino Pathiparampil:** I think the wording is a little confusing there.
- Moderator:** The next question is the line of Nancy Yadav from Allegro Capital Advisors. Please go ahead.
- Nancy Yadav:** Could you please shed some light on the IndAS-116 impact on our numbers for this quarter?
- Vivek Goyal:** There is hardly any IndAS impact on the Hospital business. Mangesh is just pulling out the numbers for the diagnostics business.

- Nancy Yadav:** Sorry, sir, I didn't get you.
- Vivek Goyal:** So, what I am saying, in Hospital business, there is hardly any impact of the IndAS-116. Diagnostics business, we have ascertained these arrangements. For that, Mangesh is just pulling the numbers. Just wait for a minute. Or we can send you separately if it is okay with you.
- Anand K.:** So, Nancy, we can share offline those numbers with you related to the Diagnostics business.
- Moderator:** The next question is from the line of Saurabh Kapadia from Sundaram Mutual Funds. Please go ahead.
- Saurabh Kapadia:** If I look at the payer mix, there has been increase in the scheme patients, both CGHS and ECHS. So, how should we look at the mix of the scheme patients going ahead with no beds getting added over the next 6 to 9 months?
- Vivek Goyal:** Yes. So, there is a little bit increase in the payer mix in some of our hospitals, and as a result, overall business also, there is an increase in the scheme business. Although we have targeted, let's say, a slight reduction in the scheme business. So, we are working on these particular metrics. And hopefully, we will be able to correct it in the coming quarters, and that should lead to some improvement in the profitability margins.
- Saurabh Kapadia:** But new beds addition will not lead to higher scheme patients?
- Vivek Goyal:** Yes. So, new bed addition is coming in Faridabad and Manesar also. So, there, of course, there will be some impact, but wherever possible, like in NCR, most of our hospitals, we are operating at a decent occupancy levels. So, there we may try to correct these metrics a little bit better.
- Saurabh Kapadia:** And do you see any impact on the international patients because of the Bangladesh situation?
- Vivek Goyal:** So, there is some impact because of the recent development in Bangladesh as well as Israel and other countries as fight is going on. But I think the impact may not be material looking at our patient flow from these countries.
- Moderator:** The next question is from the line of Abdulkader Puranwala from ICICI Securities. Please go ahead.
- Abdulkader Puranwala:** Sir, my first question is with regards to the Manesar operating cost. So, the 18% margin what you have on the Hospital business, was there an impact of the clinical talent cost and other overheads of the Manesar facility? Or you are currently capitalizing that cost?
- Vivek Goyal:** So, Manesar has yet to be operationalized. So, till operationalization, whatever expenditure we are incurring, whether it is the administrative cost, administrative staff, plus some clinical talent

we have added, so that cost is right now getting capitalized. But as Dr. Raghuvanshi said, we are in the final stage of opening that hospital. Post that it will be coming as a loss to the business.

Abdulkader Puranwala: And with that operational cost, you're guiding for close to 19% margin for the full year?

Vivek Goyal: Not really. You are talking about consolidated margin of Hospital business?

Abdulkader Puranwala: Yes, sir.

Vivek Goyal: Yes. So, consolidated margin for the full Hospital business, we have guided 20% EBITDA margin, and we are well on track on that.

Abdulkader Puranwala: Sir, my second question was pertaining to the promotion or the marketing on the rebranding side of Agilus. Sir, I mean, how should we see this cost in this particular fiscal, because I think compared to last year, it's gone up a bit, but for the full year, any color on how the margins on Agilus would look like?

Anand K.: So, we have planned to spend around Rs. 50 crores this year for the rebranding expenses. So, that will be the one-off cost for this year. So, apart from that, we will be doing our regular other marketing and regular activities as well.

Moderator: The next question is from the line of Adrit Chaturvedi from Nomura India. Please go ahead.

Adrit Chaturvedi: I would just like to understand the revenue mix on Agilus. So, you have (inaudible) roughly flat. So, I believe that tests per patient are sort of rising. So, less patients are coming, you're just selling more tests to them. And when I view that in the revenue mix, where wellness testing, that's essentially bundled, that's gone up 2% share. And I believe that, that's translating to a lesser realization per test, because you're charging lesser for the individual test in the bundle than you would if you would sell them separately. So, since there is sort of a drive to increase wellness share, shall we come to expect that as you grow this product mix, realizations per test would sort of not increase? Or would you look to offset that by more specialized testing?

Anand K.: No. Actually, see what is happening is, currently, when we want to promote directly to patients, so we opt for wellness as a source of promoting directly to the patients. When we do that, we also offer additional discounts. So, during these times, we do some campaigns. In the last quarter as well as this quarter, we are doing some campaigns around discounted packages. So, naturally, that's having an impact. But those discounts will not be available always. So, that will not happen overall as we move forward on your average realization per test.

Adrit Chaturvedi: So, like the targeted increase will not have an impact. And so the specialized bit, so we have not been able to increase a lot of the share there. However, that is a priority. So, could we come to expect that as wellness share increases and you reduce the discounts there and any ancillary

products and specialized keeps increasing, could there be like a guidance on how realizations per test would move? Because you're suggesting that they would significantly improve.

Anand K.: Yes. If you see, even on the specialized side, we are focused on next-generation diagnostics. In genomics portfolio, we are seeing a higher growth rate. So, that is also we're focusing on. That will also help us build, as we tie up with more hospitals, more specialists, as we work with oncologists and all the new-age specialties, our contribution from this part of the revenue will also move up.

Aadit Chaturvedi: Sir, very quickly on that. So, I believe most of the specialized is going to be driven by the pickup business, the B2B business going forward?

Anand K.: Specialized tests are usually driven by hospitals and other segments that outsource tests to us. So, it will be a pickup business, yes.

Aadit Chaturvedi: And just on the Hospital business. So, you have seen even a sequential increase in occupied beds and occupancy, both. And generally, Q4 is very strong for occupancies. And it was also earlier like referenced in the call that the institutional share has sort of increased. So, a lot of the footfall has actually come on the institutional bed side. So, I am just wondering that this kind of a strategy to drive up occupancies and then to drive up these OBDs, you sort of increased the institutional bed share. How is that going to affect EBITDA per bed? Because realizations are going to be lower and margins are going to be lower. So, is that a decent strategy when you have 2 options where you can increase occupancy and sort of have a lower EBITDA per bed, or you can just keep occupancies lower and have a higher EBITDA per bed. Is there like a strategic direction there?

Vivek Goyal: So, if I can answer this question differently. First of all, the payer mix has not deteriorated that much. If you see, it is almost like flat, little bit increase in the scheme business by 0.5%. And that is true when you are having expansion drive, like brownfield expansion, as you know, we are having a lot of brownfield expansion. And on the marginal profitability point of view, we know this incremental occupancy, even if it is coming from the government payer, it is giving us decent EBITDA margin, because our fixed cost is fixed. So, fixed cost is a portion on the higher base. Having said that, to reduce these government payers, that's impossible. As I mentioned, it is hospital-specific strategy. Wherever we are having higher occupancy and we are facing challenge of filling the beds, we try to optimize there. But where we have a lower occupancy, there, our endeavor is to fill the bed first and then look for this share and things. I hope I was able to answer your question.

Aadit Chaturvedi: Yes, that's what I was trying to understand that in a lower occupancy cluster of your hospitals, EBITDA per bed is not really a priority. It's more of like growth and revenue. And in your higher hospitals, you're sort of driving EBITDA per bed.

Moderator: The next question is from the line of Prashant Nair from AMBIT Capital. Please go ahead.

Prashant Nair: So, my first question is on the Manesar project. I mean, how many beds would you be operationalizing at the start? And can you just outline how this could evolve over the next, say, 2 to 3 years? By when do you see maximum beds being operationalized here?

Vivek Goyal: So, Manesar, the facilities have a total capacity of around 350 beds. So, we will be initially operationalizing around 100 beds. And once we reach a particular occupancy level of 100 beds, say, 60%, 65% occupancy level, then we will open up the balance beds. So, it will be gradual. And in our estimate, if things go as per our plan, we will be able to operationalize all 350 beds in, say, 18 months' period of time from now.

Prashant Nair: All right. And second question, again, related to Manesar. So, from a pricing perspective, or from an ARPOB perspective, I mean, how can we benchmark this with, say, your FMRI? How much lower could it be versus that hospital when it starts? And then over a period of time, will it narrow, or will it remain a slightly lower ARPOB hospital compared to FMRI?

Vivek Goyal: Yes, so FMRI is our flagship and premium hospital, where we are not having any scheme business. A lot of international patients are there. And the type of work we are doing there in terms of the clinical work we are doing, that is a high-end work. So, with that, I think the ARPOB of FMRI is the highest in our network actually. So, we are not expecting that type of ARPOB. The ARPOB will be maybe 25%, 30% lower than FMRI.

Prashant Nair: Okay. And when it starts, at the time of it commissioning? Or is it what it will grow to over a period of time, the 25%, 30% lower than FMRI?

Vivek Goyal: Yes, this is at the start, we are saying, and we will see how things pan out, and then accordingly, we will take a call on this.

Moderator: The next question is from the line of Aashita Jain from Nuvama Institutional Equities. Please go ahead.

Aashita Jain: My first question is on the diagnostics business. Sir, have we taken any price hikes in the diagnostics business in the last 6 to 8 months? And what's the impact of it, if we have taken any?

Anand K.: So, in fact, we have taken a small price increase around the end of Q4 of last year. That's only on the B2C business, on the walk-in business, and also only in some of the segments that we have taken. So, overall, the impact is not very significant, as we also do some discounting on that business at this point of time for brand promotion. As such, if you see overall, compared to Q4, we have an improved performance in Q1.

Aashita Jain: And my second question is on the hospital margin metrics. So, now we are selling hospitals which are below 10% margin mark. Which are these hospitals, and do we have plans to divest any of these? Also, you talked about some other initiatives to turn around these facilities. So, could you please elaborate on the same?

Vivek Goyal: Yes. So, these metrics we are sharing for quite some time. So, there are usual candidates here. One is FEHI, Jaipur, and Vashi. These are the 3 big hospitals which are part of this bucket. And we are making a lot of efforts to improve this. FEHI, I have made a comment earlier, because of the annual increment thing, they have not been able to absorb, and we are working on the cost side of FEHI, and also improving the revenue mix there. Because right now it is majorly a cardiac center. So, we are trying to add other facility. We are adding the clinical talent and other things there. We are working on the infrastructure improvement also there. We are spending a lot of money on the CAPEX on this hospital. So, hopefully, the things will improve in FEHI with all these efforts. This quarter, it has come down from 10% EBITDA margin able to achieve last quarter. Jaipur, there are other issues which we are grappling with. And as a result, our revenue has also fallen, and EBITDA margin, it has actually gone into negative territory. Vashi is grappling with competition around that area and the state of the facility is not that great. And we are making a lot of effort, but Vashi, as we said in the earlier call also, we are not able to crack anything there right now, and we are working to improve margins through increasing the occupancy by whatever means we can increase, through the marketing, sales, etc., and things like that.

We have added one more hospital here in Ludhiana too which is a new hospital, we have added 6 months back. So, it is early days for this hospital. Although I must admit this hospital has not performed the way we wanted to perform in the 6 months, but we are working on this.

Moderator: The next question is from the line of Atul, an individual investor. Please go ahead.

Atul: My question is what has been the occupancy level so far since August? July has already passed and we are like 7th day of August, so if you can answer that/

Vivek Goyal: No, we will not be able to give you specific numbers, because it is price sensitive. But directionally, it is better than the last quarter.

Atul: And any active inorganic opportunities which are in pipeline?

Vivek Goyal: So, there are a lot of opportunities we are exploring right now, but these things have not reached a stage which we can disclose. So, we are working on that and as and when we reach a particular stage, we will definitely come back to the market.

Atul: And since all the hearings in the courts are done, are you anticipating the legal costs to come down in the next quarter?

Vivek Goyal: Not really, because just the hearing is completed. I don't know what will be the reaction of Daiichi, whether they will appeal in the higher court and things like that. And we have not come out from the woods completely. We have yet to receive the order. So, all those things will determine the legal cost. So, my estimate is legal cost will continue to be high in this year. And



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August 07, 2024*

this has already been budgeted and accounted for when I am giving various guidance on the EBITDA margin front.

Moderator: Ladies and gentlemen, that was the last question for today. We have reached the end of our question-and-answer session. I would now like to hand the conference over to Mr. Anurag Kalra for closing comments.

Anurag Kalra: Ladies and gentlemen, thank you very much for taking the time to join us today. In case there are further clarifications or questions, my colleague, Amit, and I are available to address those either telephonically or by e-mail. Thank you very much once again and have a good day.

Moderator: Thank you. On behalf of Fortis Healthcare, that concludes this conference. Thank you for joining us. You may now disconnect your lines.